8/28/81 K 9050-3 A

MONTHLY TAX FEATURES

Volume 25, Number 7, August 1981

Tax Foundation, Incorporated

1875 Connecticut Avenue, N.W. ☐ Washington, D.C. 20009 ☐ 202-328-4500 ☐

New "Facts & Figures" Gives Fiscal Profile of American Economy

"To find the right answer, it is first necessary to ask the right question," observes Tax Foundation's Chairman Thomas M. Macioce in his Foreword to *Facts and Figures on Government Finance*, 21st biennial edition. He continues by pointing out that "in matters of public finance and in the tax and fiscal arena, those questions cannot be formulated without mountains of statistical data."

And mountains of data are what the latest major revision of Tax Foundation's widely used handbook on government financial operations contains. There are 250 tabulations in this edition, 40 of them brand new, containing over 51,000 entries. Some of the highlights of the U.S. fiscal profile cited in the new *Facts and Figures* are:

- Since 1960, the portion of personal income taxable under Federal law has risen from 43 percent to nearly 60 percent. At the end of World War II in 1945, only 31 percent was taxable.
- Social security taxes for the median income family in 1980 were about 10 times what they were in 1959. Last year, for every dollar paid out in Federal income taxes, the median income family had to pay another 58 cents in social security taxes.

(Continued on page 3)

First Quarter Tax Index Tops 400 As Size of Federal Tax Bite Climbs

The Tax Index passed another milestone in the first quarter of 1981, topping the 400 mark (1967 = 100) for the first time, according to Tax Foundation economists. The Index rose by 6.8 percent from the fourth quarter of 1980 for a stunning 30.3 percent annual rate of increase. At a level of 408.2 in this year's first quarter, the Tax Index was almost 16 percent higher than in the same period a year earlier.

After dipping slightly during the second quarter of last year in reaction to the brief recession, the Index has climbed in each of the three quarters since.

In the first quarter of this year, the Federal Tax Index reached 412.2, up from the previous quarter by 8.3 percent, or an annual rate of 37.6 percent. At the same time, the State-Local Index rose by 3.8 percent, or 16.3 percent on an annual-rate basis, reaching 400.0.

The major taxes contributing to the latest quarterly upsurge in the Index were Federal social security taxes (both the rate and base increased in January) and the so-called windfall profits tax on oil. The latter, classified as an excise tax, is grouped under indirect business taxes.

(Continued on page 2)

Tax Index and Related Measures
Quarterly, at Seasonally Adjusted Annual Rates, (1967 = 100)

Year and quarter		Tax Index	Output Index[a] Current price	Output Index[a] Constant prices	Price Index[b]
1978	I	278.1	254.2	138.7	183.3
	II	293.0	266.3	141.7	188.0
	III	300.3	274.0	143.0	191.5
	IV	313.2	284.1	144.9	196.0
1979	I	321.1	292.7	146.3	200.1
	II	325.8	297.0	145.7	203.9
	III	336.2	305.7	147.1	207.7
	IV	344.5	312.2	147.4	211.8
1980	I	353.1	321.6	148.5	216.6
	II	349.3	320.8	144.7	221.7
	III	363.4	329.8	145.5	226.6
	IV	382.1	341.5	146.9	232.5
1981	I	408.2	356.9	149.9	238.1

[a] Gross national product.
[b] Implicit price deflator for gross national product.
Source: Tax Foundation computations and estimates based on data from U.S. Department of Commerce, Bureau of Economic Analysis.

ATTENTION EDITORS: *Monthly Tax Features* is not copyrighted. Material may be reproduced freely. Please credit Tax Foundation.

The Front Burner

By Robert C. Brown
Executive Vice President
Tax Foundation, Incorporated

"Keeping the Numbers Honest"

George Bernard Shaw is supposed to have observed that if all the economists in the world were laid end to end they still would not reach a conclusion. While Shaw may have overstated the case, the tentativeness of the "dismal science" is real enough. To find more than a handful of economists who will agree on present data is difficult. To find any kind of consensus on future trends is well nigh impossible.

Long-range economic forecasting is a very chancy business, indeed, and highly subject to manipulation.

If the projections don't fit the goals, just change assumptions until the desired numbers pop out of the computer. This is a game regularly played by economists of all stripes. In Washington, it has been raised to the level of a fine art.

Looking at the out-year projections for spending and revenues, whether in the Administration's bill or the various alternatives which were debated before the final vote, is enough to give the thoughtful observer the willies. All things being equal, and given the most optimistic assumptions, if everything works out just perfectly, we will reach the economic promised land in 1984. How we will get there and what shape we will be in when we arrive depends on whose projections—and assumptions—you buy.

I do not mean to downgrade the overall thrust of both the budget action and the tax restructuring that have taken place. Government spending had to be reined in. The wealth of the nation should be returned to, or left with, those who created it through productive labor. A strong national defense is clearly mandated.

However, the easy cuts have all been made. We must yet ask difficult policy questions about the size and role of the Federal social welfare structure. We must look again at the dangerous tax expenditure concept and the notion of sunset.

If economic slight-of-hand ever had a place, that time has passed. Out-year projections must be accurate or the coming debate will mean little. This *is* the only economy we've got. If there are problems down the road, let's see them and deal with them. We can only do so if we keep our eyes open—and our numbers honest.

Tax Index

(Continued from page 1)

There was also a significant rise in social insurance contributions at the state-local level. The overall index for social insurance taxes reached 544.9 in the first quarter, on the 1967 base. This represented an enormous jump from the closing quarter of 1980—a rise of 10.0 percent, which is equivalent to 46.4 percent on an annual basis. At the Federal level, the jump was even steeper; social insurance taxes climbed by 11.3 percent for the quarter, a seasonally adjusted annual rate of 53.5 percent.

Measured against the first quarter of 1980, the Federal index for indirect business taxes jumped from 184.4 to 364.9. This represented a 98 percent advance, largely because of revenues from the windfall profits tax which became effective on March 1, 1980, according to Tax Foundation researchers.

The Tax Index is a fiscal yardstick designed by Tax Foundation economists to provide a continuing measure of trends in taxes on a basis comparable to official indexes for other segments of the economy. Data in the table on page 1 depict recent quarterly trends in taxes, output, and prices.

There was a significant rise in the nation's output in the first quarter of this year, but not so great as the rise in taxes. The nominal GNP index rose by 4.5 percent, an annual rate of 19 percent. A comparison of the relative movements in taxes and GNP reveals that for every 1 percent of the GNP rise, there was a rise of 1.5 percent in taxes. In other words, in the first quarter of the year taxes rose 50 percent faster than current dollar GNP.

Such sharp differentials in the rates of change between the two series are not likely to continue in the months ahead, according to Tax Foundation economists, since the higher social security tax provisions introduced in January will stabilize for the current year. Also, the rate of increase in revenues from the windfall profits tax may level off or decline.

Compared with the 408.2 Tax Index, the GNP index stood at 356.9 in the first quarter, the price index at 238.1 and the index of real output (inflation-adjusted GNP) at 149.9.

In absolute terms, first quarter 1981 taxes for all levels of government amounted to an annual equivalent of $895 billion—$611 billion Federal, and $284 billion state and local. These figures compare to a total of $219 billion in 1967—$148 billion in Federal and $71 billion in state and local taxes.

Taxes on income at all levels of government continue to show high rates of growth, as demonstrated by the Tax Index.

The index for state and local personal income taxes eased past the 800 mark in the first quarter of 1981, up by 20.6 percent over the same quarter of last year. The index for personal income tax receipts reached 462.9 in the first quarter—429.8 for Federal and 801.0 for state and local governments. In dollars, this amounted to $327.0 billion—$276.6 billion at the

(Continued on page 4)

About Tax Features

Tax Foundation, Incorporated, is a nonprofit organization engaged in nonpartisan research and public education on the fiscal and management aspects of government. It is supported by voluntary contributions from corporate and individual sponsors, nationwide.

Original material in *Monthly Tax Features* is not copyrighted and may be reproduced freely. Please credit Tax Foundation, Incorporated. Members of Tax Foundation are urged to pass their copies of *Tax Features* along to editors of their House publications.

For additional information, write to Tax Foundation, Incorporated, 1875 Connecticut Avenue, N.W., Washington, D.C. 20009, or call (202) 328-4500.

New *Facts & Figures* Profiles U.S.

(Continued from page 1)

• Residents of the combined New York, Chicago, and Los Angeles metropolitan areas pay about 15 percent of all Federal taxes—over $50 billion to Uncle Sam annually.

• Wyoming received less Federal grant money than any other state in 1980—about $191 million. New York received the most—$9.6 billion, for which it paid only $7.3 billion of the taxes required to fund Federal grants.

• Federal personnel compensation and benefits in 1980 hit $118 billion—$77 billion for civilian employees and $41 billion for the military. In 1975, total personnel costs for both civilian and the military totaled $77 billion.

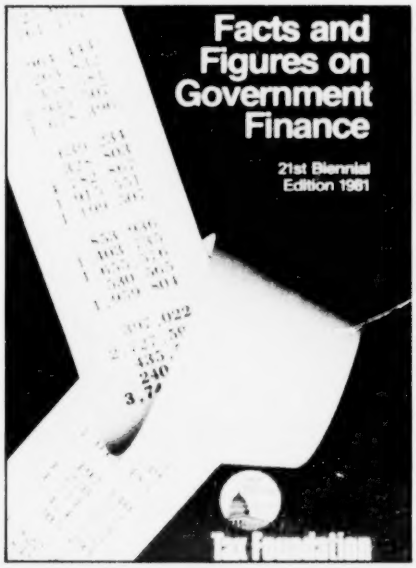
• In 1979, state and local units in Alaska paid more per capita than any other state for education, highways, and financial administration. That same year, the District of Columbia paid more per capita than any state for public welfare, health and hospitals, and police and fire protection. Besides Alaska, the states of Wyoming, the Dakotas, West Virginia, and Montana spend most on highways per capita.

• Indiana has the lowest level of state and local spending per $1,000 of personal income—$146. Missouri, with $155 per $1,000 of personal income is second lowest.

• State and local governments nationwide spend $24 per $1,000 of personal income on public welfare. Arizona spends least, $8 per $1,000 of personal income in 1979, largely because it is the only state in the Union not participating in the $20-odd-billion-a-year Medicaid program.

• Government in Nebraska depends on local financing for 44 percent of its revenues—more than any other state.

• State and local governments depend on the Federal government for 22 percent of their general revenue. In 1979, local governments received $209 billion in general revenue, of which only $117 billion came from local revenue sources; the rest came from Federal and state aid.



The 21st biennial edition of *Facts and Figures on Government Finance* is currently available from the Tax Foundation.

Included in the new edition are 250 tabulations of statistics on Federal, state, and local government and selected economic series, including 40 new tables on key areas; a glossary; an index; and notes. There are over 300 pages, arranged in six sections, each with its own table of contents.

The Foreword was written by Thomas M. Macioce, Chairman of the Tax Foundation.

Copies of *Facts and Figures on Government Finance*—21st edition—can be ordered from Tax Foundation, Incorporated, 1875 Connecticut Avenue, N.W., Washington, D.C. 20009. The cost of the new edition is $15.

• In Hawaii, over 75 percent of government finances are concentrated in state, rather than local government units. This is the highest ratio of state to local government in the nation.

• State and local governments in the United States owed more than $300 billion in outstanding debt at the end of 1979. In 1957, they owed only $53 billion. Also, in 1979, these units issued a record $42 billion in new long-term debt.

• Total medical public assistance —Medicaid—came to $19 billion in 1979, of which California and New York received nearly a third—about $6 billion.

• Public employees covered by state-administered retirement systems contribute about 20 cents per dollar of the funding of pensions. Earnings on investment of the funds account for another 33 cents. The balance of 47¢ per dollar comes from state and local government budgets—in other words, from the taxpayers.

• Cash and security holdings by state-administered public employee retirement systems totaled over $125 billion in 1979.

• The average weekly unemployment check in 1979 came to $89.67, compared to $32.87 in 1960.

• During the 1973-75 recession, unemployment benefits doubled in a single year, jumping from $6 billion to $12 billion, nationwide.

• In 1979, over 105 million weeks of unemployment were compensated. In the 1975 recession year, over 175 million weeks were compensated. The low point in unemployment payouts for the last two decades occurred in 1966, when 47 million weeks were compensated.

• In the 1970s, an average of nearly 350,000 unemployment claims were filed annually.

• Government transfer payments to persons—i.e., payments not matched by current production—almost quadrupled from 1969 to 1979. About three-fourths of the $240 billion so spent in 1979 represented payments under "social insurance" programs, such as social security, Medicare, and unemployment benefits. More than half went for retirement programs, largely OASDI and government employee pensions.

• "Baby Boomers" will dominate the labor force in 1990. At that time, workers between the ages of 25 and 44 will account for about 55 percent of the labor force, up from 44 percent in 1978.

(Continued on page 4)

Facts & Figures

(Continued from page 3)

• The number of persons below the poverty level declined dramatically from 1959 to 1979—from 39.5 million to 25.2 million, or 36 percent. Thus, the incidence of poverty was almost cut in half—from 22 percent of the population in 1959 to about 11 percent in 1979. For heads of families living on farms, the poverty rate fell from 45 percent to 11 percent during the same time span.

• The effective rate of Federal and state income taxes on profits of nonfinancial corporations was fairly constant in most years during the decade of the 1970s, at close to 50 percent—give or take a percentage point or two. The range between the two extreme years, however, was rather large—from 46 percent in 1972 to 66 percent in 1974.

• Of the 14.5 million active firms filing income tax returns for 1976, more than 11 million were single proprietorships. Among them, 8 million had annual receipts below $25,000. In the same year, the 2.1 million active corporations accounted for only 14 percent of the number of firms, but garnered 86 percent of all business receipts.

• Productivity (output per person-hour) of American workers in the private business sector declined in 1980 for the third year in a row. Compensation per hour, however, increased by more than 30 percent in the same period.

• The rate of growth in productivity in the United States has been the slowest among major industrial nations, averaging 2.2 percent a year since 1967. In contrast, productivity in Japan has increased at an annual rate of 7.2 percent.

• Only Italy and the United Kingdom devoted a smaller share of output to fixed capital formation in 1979 than did the United States. The U.S. figure was 19.0 percent, compared to 18.7 for Italy and 17.6 for the United Kingdom. In Japan, the proportion was 31.6 percent.

• Public and private wealth in the United States, as measured by the net stock of fixed reproducible tangible wealth, amounted to some $6.7 trillion at the end of 1979. More than $2.2 trillion of this, about one-third, was in the form of private residential structures. Government wealth was put at about $1.6 trillion, largely in the form of nonresidential buildings.

Facts and Figures on Government Finance, 21st edition, is available from the Tax Foundation. Single copies are $15.

Tax Index

(Continued from page 2)

Federal level, and $50.4 billion at the state and local level.

Taxes on corporate profits rebounded to an index of 278.3, up from 220.1 in last year's second quarter recession. The state-local component of the corporate profits tax reached 533.8 in first quarter 1981, up from its 1980 recession low of 431.9.

The accompanying tables reveal recent quarterly trends in the overall Tax Index, as compared with output and prices, along with annual data on the components of the Index for selected years since 1960.

Currently Available

"Memorandum on the Allocation of the Federal Tax Burden and Federal Grants-in-Aid by State, Fiscal Year 1981, 6 pages, single copies free.

"Allocating Tax Burdens and Government Benefits by Income Class, 1972-73 and 1977," Government Finance Brief No. 31, 31 pages, $2.50.

"The Reagan Budget for Fiscal 1982—A Summary," A Tax Foundation Special Report, April 1981, 27 pages, $1.00.

"The Congressional Budget Process at the Crossroads" by Maynard H. Waterfield (Special Report), January 1981, 14 pages, $1.00.

"Tax Policy, The Budget, and Unemployment," Proceedings of Tax Foundation's 32nd National Conference, 64 pages, $5.00.

Tax Index by Level of Government and Type of Tax
Selected Periods 1960-1981[a]
Index Numbers, 1967 = 100

Type of tax	1960	1970	1975	1980	1981[b]
			All governments		
All taxes	61.9	132.2	204.3	362.1	408.2
Personal income	62.8	141.5	203.3	418.9	462.9
Corporate profits	69.9	105.2	155.9	253.7	278.3
Indirect business taxes[c]	65.4	134.7	199.5	297.1	345.1
Social insurance contributions	48.7	135.0	257.0	475.2	544.9
All other[d]	61.4	123.2	164.4	226.4	231.1
			Federal government		
All taxes	64.3	127.5	191.0	359.6	412.2
Personal income	65.0	138.1	187.7	390.0	429.8
Corporate profits	71.4	102.0	145.1	233.8	257.4
Indirect business taxes[c]	86.0	119.3	145.9	237.6	364.9
Social insurance contributions	48.1	134.3	257.7	475.5	549.1
All other[d]	57.4	120.1	159.4	215.3	208.8
			State and local governments		
All taxes	56.9	142.1	232.1	367.2	400.0
Personal income	40.3	176.6	362.8	713.6	801.0
Corporate profits	50.9	144.5	287.9	497.1	533.8
Indirect business taxes[c]	59.4	139.2	215.1	314.4	339.4
Social insurance contributions	51.6	138.9	252.8	473.3	522.9
All other[d]	65.2	126.0	168.9	236.6	251.6

[a] Most taxes are shown on an accrual basis.
[b] First quarter at seasonally adjusted annual rate.
[c] Includes sales, excise, and customs levies, and real property taxes (including those on owner-occupied homes).
[d] Estate and gift and personal property taxes.
Source: Tax Foundation computations and estimates based on data from U.S. Department of Commerce, Bureau of Economic Analysis.

10/13/81 R 9050 - 3 A

MONTHLY TAX FEATURES

Volume 25, Number 8, September 1981

Tax Foundation, Incorporated

1875 Connecticut Avenue, N.W. ☐ Washington, D.C. 20009 ☐ 202-328-4500 ☐

Public Debt to Exceed $1 Trillion Mark; Interest Will Pass $100 Billion in 1982

While there are uncertainties and varying opinions as to the probable size of the budget deficit over the next few years, at least two things about the budget—not entirely unrelated to deficits—seem clear. The public debt during fiscal 1982 will top the $1 trillion level for the first time, and interest payments on that debt will pierce the $100 billion mark, according to Tax Foundation economists.

Officials at the Treasury Department appeared before a Senate panel in mid-September to ask Congress, for the 25th time in the last decade, to raise the "temporary" debt ceiling. They sought to hike the ceiling from the $985 billion level approved last February to $1.0798 trillion before the fiscal year ends on September 30. (The House had already approved a similar measure.)

The permanent debt limit, established in 1971, stands at $400 billion; and in the absence of new legislation, the ceiling would automatically revert to that figure on October 1.

(Continued on page 2)

Course of the Federal Debt
As of Selected Dates 1917-1981

Period and date	Public debt outstanding: Amount (billions)	Public debt outstanding: Per capita[a]	Interest on debt: Payments for fiscal year (millions)	Interest on debt: Computed annual rate (percent)
World War I:				
Prewar debt, March 31, 1917	$ 1.3	$ 12	$ 25	2.40
Highest war debt, August 31, 1919	26.6	250	1,020	4.20
Post World War I low debt, December 31, 1930	16.0	130	612	3.75
World War II:				
Debt preceding defense program, June 30, 1940	48.5	367	1,041	2.58
Highest war debt, February 28, 1946	279.8	1,990	4,722	1.97
Post World War II:				
Lowest postwar debt, April 30, 1949	251.6	1,690	5,339	2.24
Debt, June 30, 1960	286.5	1,587	9,180	3.30
June 30, 1970	371.5	1,812	19,304	5.56
June 30, 1975	533.2	2,469	32,665	6.35
September 30, 1978	771.5	3,456	48,695	7.13
September 30, 1979	826.5	3,661	59,837	8.06
September 30, 1980	907.7	3,976	74,781	9.03
September 1, 1981	983.9	4,273	96,500[b]	10.99[c]

[a]Based on population estimates including armed forces overseas.
[b]Mid-year review Budget estimate.
[c]As of July 31, 1981.
Source: Treasury Department; Office of Management and Budget; Bureau of the Census, Department of Commerce; and Tax Foundation computations.

30 States Hike Taxes For Net $2.5 Billion, Hitting 10-Year High

Tax action in 30 states will raise revenues by a net $2.5 billion a year, Tax Foundation economists report. This is the highest annual statutory increase in state taxes in ten years.

The 1981 tax hike compares with an increase of $420 million in 1980 and substantial reductions in the two preceding years, according to researchers at the Foundation. The $5 billion annual tax boost legislated by 30 states in 1971 remains the largest on record.

Higher general sales taxes will account for a significant portion ($860 million) of this year's tax increase. Sales tax rates were raised on a permanent basis by West Virginia and temporarily by Ohio, Minnesota, and Nevada. (New Mexico reduced its sales tax rate slightly.)

Reacting to a continuing squeeze on highway funds brought on by rising costs and declining gasoline usage, 24 states and the District of Columbia approved increases in motor fuel tax rates. This will bring in about $750 million a year, according to calculations by Tax Foundation economists.

To finance mass transit operations, New York approved a five-tax package to raise $793 million annually.

Action on the state income tax front was much lighter. New Mexico lowered its personal income tax rates, and Montana repealed a 10 percent surtax on personal income tax.

(Continued on page 4)

ATTENTION EDITORS: *Monthly Tax Features* is not copyrighted. Material may be reproduced freely. Please credit Tax Foundation.

The Front Burner

By Robert C. Brown
Executive Vice President
Tax Foundation, Incorporated

"Hold! Enough!"

The tax cut enacted by the Congress and signed into law by the President last month is easily the biggest dollar reduction in history. Its implications will not be known, much less absorbed into the economy, overnight. Consequently, it is imperative that the taxpayer, the business community and the Federal government have sufficient time to live with what has been wrought before any further reductions are attempted.

The changes already enacted into law will strain the resources of the IRS, the individual taxpayer, tax attorneys and accountants. The ultimate impact of the Economic Recovery Tax Act in terms of corporate planning and investment and also as regards any feedback effects are so uncertain at this stage of affairs that funneling any additional changes into the pipeline now might overload the system, creating a monumental backup. This is a risk we cannot afford to take.

However, a number of tax matters put into a holding pattern while the tax package was being wrestled with this summer are beginning to surface once again, issues such as tuition tax credits and free enterprise zones. In the wake of revised deficit projections, the Treasury and the tax writing committees will undoubtedly want to look at some revenue raising proposals such as tightening up on industrial development bonds and deductibility of fringe benefits.

All of these issues deserve to be debated. Some will eventually find their way into law. Now is not the time, however. There will undoubtedly be charges that those who are benefiting from the new law are taking an attitude of, "We got ours, the heck with everyone else." This is not at all the case, although the beneficiaries, particularly the business community, will have to back words with actions to demonstrate that they can do the job now that the tools have been placed in their hands.

The need to refrain from further tax action, no matter how worthwhile it may be, is much deeper than the alleged shortsightedness of those whose self-interest was served by the first bill. It is simply a case of the need to allow the system to adapt to the massive change that has been visited upon it. Having acquired the biggest tax cut in history, we are well advised to digest it and watch what happens. If we don't, we will wind up with the biggest case of fiscal indigestion anyone has ever seen.

Tax Foundation, Incorporated

MARK YOUR CALENDAR

Tax Foundation's 33rd National Conference and 44th Annual Dinner will be held this year on Wednesday, December 2nd at the Plaza Hotel in New York City. Details will follow in future issues of *Monthly Tax Features.*

Public Debt

(Continued from page 1)

Those concerned about the size of the debt *per se* can take some comfort in the fact that the debt has declined relative to the size of the nation's total output. During the peak years of World War II, for instance, the debt was equal to more than 133 percent of gross national product (GNP). As recently as 1964, the debt totaled more than one-half of the GNP. Today, the public debt is "only" about 35 percent of GNP.

The growth of interest payments on the rising debt and the resulting effects on the Federal budget are scarcely grounds for comfort. Interest on the public debt is estimated at $96.5 billion for fiscal year 1981 and at $108.6 billion for 1982. If interest rates continue at current levels, that amount will go even higher.

Less than a year ago, in December 1980, the debt ceiling was raised to $935.1 billion. Immediately following this year's change in Administra-

(Continued on page 4)

U.S. Family Saves $825 in 1984 Despite Bite of Inflation and FICA

The new Federal tax law will reduce Federal taxes by 16 percent in 1984 for the prototypical family whose salary rises in step with projected inflation, according to economists at the Tax Foundation. A savings of $825 will result from the cuts contained in the Economic Recovery Tax Act of 1981.

In fact, this family's real income—in terms of 1980 dollars—will be $15 higher in 1984, after Federal income and social security taxes have taken their bite, than it was in 1980, reversing the steady decline in the family's purchasing power which has occurred in recent years.

Tax Foundation economists describe the "prototypical" family as one which earns the median amount of income for all families with one earner employed full-time year-round and which consists of a married couple with two children. In 1980, the median income of this family was $20,586. If its earnings rise in step with projected inflation, the family will earn $26,926 in 1984, about 31 percent more than in 1980.

Under the old law, the family's Federal income and social security taxes in 1984 would have totaled $5,306, leaving an after-tax income of $21,620. After adjusting that income for the 31 percent rise in consumer prices, the family would be $616 poorer (constant 1980 dollars) in 1984, a 4 percent drop in real income.

This year's revisions in the tax law make that picture somewhat rosier. Now the family's income and social security taxes will total $4,481 in 1984, leaving an after-tax income of $22,445. In constant 1980 dollars, that amounts to $17,160, as compared to $17,145 in 1980. While this is no big gain—less than one-tenth of one percent in real after-tax income—it is a marked improvement over the $616, or 4 percent, decline which would have taken place had there been no tax cut this year.

Social security taxes were not affected by the 1981 legislation and will remain the same under the old and new laws. FICA will rise from 6.13 percent of the median family's income in 1980 to 6.7 percent in 1984, or from $1,262 to $1,804—a rise of about 43 percent.

The saving in income tax, however, is substantial. In 1980, the family paid $2,179 in Federal income taxes, an amount equal to 10.6 percent of its income. Under previous law, this income tax bite—by 1984—would have increased almost 61 percent—to $3,502, consuming 13.0 percent of the family's income. Under the 1981 tax law, the Federal income tax for this family will drop to $2,677 by 1984, only about 23 percent more than it paid in 1980, and to 9.9 percent of its total income. For the four-year period (1981-1984) the cumulative savings in income taxes due to the new law is $1,771.

Put in other terms, the family's direct Federal taxes (social security and income) under pre-1981 law would have risen from 16.7 percent of income in 1980 to 19.7 percent by 1984.

The accompanying table shows the effect of direct Federal taxes and inflation on this family's income between 1980 and 1984.

State-Local Pay Grew 149% in Last Decade; Employees up 30%

Paychecks for the nation's state and local government workers have shot up 149 percent in the last ten years, despite a much more modest 30 percent increase in the number of workers employed, Tax Foundation researchers indicate. In October 1980, latest data available, the monthly state-local payroll totaled $14.7 billion, compared with $5.9 billion a decade earlier and $2.2 billion 20 years ago.

For the same ten-year period, the gross national product (GNP) grew at 165 percent, the Tax Index climbed 174 percent, and inflation chalked up a 94 percent increase.

Last fall, 11 million full-time equivalent employees received paychecks from states or localities, whereas 8.5 million held public jobs at those levels in October 1970 and 5.6 million in 1960. The ratio of public employees to the public they serve has registered a 16 percent increase over the decade, from 420 per 10,000 of population in 1970 to 488 per 10,000 ten years later.

California employs the most public sector workers, 1.1 million last October, followed by New York, with 946,000. Ten years earlier, their relative positions were reversed. New

(Continued on page 4)

Effect of Direct Federal Taxes and Inflation on Purchasing Power of Median Income Family, 1980-1984

Item	1980	1981	1982	1983	1984
Median family income[a]	$20,586	$22,624[b]	$24,209[b]	$25,588[b]	$26,926[b]
Direct Federal taxes:			Under prior law		
Total	3,441	4,102	4,536	4,885	5,306
Income tax[c]	2,179	2,598	2,914	3,171	3,502
Social security	1,262	1,504	1,622	1,714	1,804
After tax income:					
Current dollars	17,145	18,522	19,673	20,703	21,620
1980 dollars	17,145	16,853[b]	16,729[b]	16,656[b]	16,529[b]
Direct Federal taxes:			Under current law		
Total	—	4,069	4,230	4,278	4,481
Income tax[c]	—	2,565	2,608	2,564	2,677
Social security	—	1,504	1,622	1,714	1,804
After tax income:					
Current dollars	—	18,555	19,979	21,310	22,445
1980 dollars	—	16,883[b]	16,989[b]	17,144[b]	17,160[b]

[a]Median income of all families with one earner, employed full-time year-round.
[b]Adjusted by the Consumer Price Index as forecast by the Administration in the Mid-Session Review of the Budget. The increases are 9.9% in 1981, 7.0% in 1982, 5.7% in 1983, and 5.2% in 1984.
[c]Married, filing joint return, with two dependent children.

About Tax Features

Tax Foundation, Incorporated, is a nonprofit organization engaged in nonpartisan research and public education on the fiscal and management aspects of government. It is supported by voluntary contributions from corporate and individual sponsors, nationwide.

Original material in *Monthly Tax Features* is not copyrighted and may be reproduced freely. Please credit Tax Foundation, Incorporated. Members of Tax Foundation are urged to pass their copies of *Tax Features* along to editors of their House publications.

For additional information, write to Tax Foundation, Incorporated, 1875 Connecticut Avenue, N.W., Washington, D.C. 20009, or call (202) 328-4500.

State-Local Workers

(Continued from page 3)

York had 935,000 state-local workers then, compared with 892,000 in the Golden Gate State. Vermont employed the fewest public workers in October 1980 (25,000), while Alaska held that distinction a decade earlier, with 16,000.

State and local government employment rose by 0.9 percent in 1980, compared to a 1.1 percent increase in U.S. population. This represents a continuation in the slowing of state-local employment growth of the late 1970s, but it marks the first time in postwar history that state-local employment increases have fallen behind U.S. population.

In comparison, state-local public employment averaged 2.6 percent annual growth during the 1970s and 4.4 percent during the 1960s.

State and Local Government Employment and Payrolls

Month of October, 1970 and 1980

State	Employees[a] Number (000) 1970	1980	Percent increase	October payroll Amount (millions) 1970	1980	Percent increase	Employees[a] per 10,000 population Number 1970	1980	Percent increase
TOTAL	8,528	11,047	30	$5,906	$14,730	149	420	488	16
Alabama	136	196	44	70	214	206	394	504	28
Alaska	16	32	100	16	69	331	515	803	56
Arizona	77	137	78	56	198	254	435	506	16
Arkansas	73	106	45	34	105	209	380	465	22
California	892	1,108	24	784	1,864	138	447	468	5
Colorado	107	149	39	69	206	199	484	515	6
Connecticut	113	138	22	87	193	122	371	445	20
Delaware	26	31	19	17	39	129	472	526	11
Florida	295	459	56	186	546	195	434	471	9
Georgia	198	308	56	105	321	206	432	563	30
Hawaii	38	49	29	30	68	127	496	503	1
Idaho	32	45	41	17	54	218	455	481	6
Illinois	440	509	16	336	745	122	396	446	13
Indiana	199	248	25	125	295	136	383	451	18
Iowa	122	148	21	76	188	147	432	508	18
Kansas	106	127	20	61	146	139	470	536	14
Kentucky	115	155	35	65	177	172	356	423	19
Louisiana	160	224	40	88	240	173	438	532	21
Maine	41	51	24	22	59	168	412	458	11
Maryland	161	231	43	117	319	173	411	547	33
Massachusetts	228	287	26	162	395	144	401	500	25
Michigan	359	435	21	291	695	139	404	470	16
Minnesota	162	203	25	120	292	143	425	498	17
Mississippi	94	130	37	42	122	190	422	514	22
Missouri	184	229	24	111	261	135	392	465	19
Montana	33	44	33	20	54	170	479	556	16
Nebraska	74	93	26	43	109	153	498	590	18
Nevada	25	40	60	19	57	200	519	501	−3
New Hampshire	27	41	52	17	47	176	361	450	25
New Jersey	268	370	38	200	518	159	374	502	34
New Mexico	49	77	57	29	91	214	486	590	21
New York	935	946	1	754	1,393	85	514	539	5
North Carolina	189	298	58	112	342	205	372	508	37
North Dakota	28	33	18	17	43	153	450	503	11
Ohio	390	473	21	256	614	140	366	438	20
Oklahoma	107	158	48	59	171	190	420	524	25
Oregon	97	135	39	67	189	182	463	514	11
Pennsylvania	414	475	15	282	635	125	351	401	14
Rhode Island	36	45	25	25	62	148	379	471	24
South Carolina	103	161	56	53	172	225	396	516	30
South Dakota	32	34	6	18	37	106	483	500	4
Tennessee	162	225	39	85	248	192	414	490	18
Texas	454	695	53	265	826	212	405	488	20
Utah	48	68	42	30	88	193	449	463	3
Vermont	19	25	32	12	28	133	424	482	14
Virginia	184	269	46	115	321	179	396	503	27
Washington	160	204	28	120	314	162	468	495	6
West Virginia	72	100	39	39	108	177	412	511	24
Wisconsin	183	226	23	135	325	141	414	480	16
Wyoming	20	30	50	12	40	233	603	644	7
Dist. of Columbia	49	49	[b]	37	86	132	643	763	19

[a]Full-time equivalent employees.
[b]Less than .5%.
Source: Bureau of the Census, U.S. Department of Commerce; and Tax Foundation computations.

Public Debt

(Continued from page 1)

tion, the limit was raised to $985 billion, due to revert to $400 billion on September 30, 1981. As of September 1, the debt stood just a hairline under the $985 billion limit, in effect, signaling yet a third ceiling hike in one fiscal year period. At current levels, the debt amounts to a burden of $4,273 per man, woman, and child in the United States, according to Tax Foundation calculations.

The table on page 1 shows the course of the Federal debt for selected years since 1917.

The 21st biennial edition of *Facts and Figures on Government Finance* is now available.

Copies can be ordered from Tax Foundation, Incorporated, 1875 Connecticut Avenue, N.W., Washington, D.C. 20009. The cost of the new edition is $15. (Special Member's discount: $12.)

State Tax Action

(Continued from page 1)

Connecticut enacted a new 5 percent tax on unincorporated business income, and New Hampshire approved a 13.5 percent surtax on its business profits tax. Pennsylvania extended higher individual and corporate income tax rates which had been scheduled to terminate.

Details on state tax action to date for 1981 are given in the September issue of *Tax Review* available at no cost from the Foundation.